

Olympic Water and Sewer, Inc.
70 Breaker Lane
Port Ludlow, WA 98365

IMPORTANT NOTICE

February 11, 2008

Olympic Water and Sewer, Inc. (OWSI) has filed for approval from the Washington Utilities and Transportation Commission (WUTC) to increase rates \$258,905 (50 percent) annually. If approved, the rates will be effective on April 22, 2008 to coincide with the May/June billing cycle.

It should be noted that OWSI consists of both water and sewer operations. This notice only relates to water that is regulated by WUTC.

REASON FOR INCREASE:

OWSI has not adjusted rates for water service since 1994, at which time the rates were *reduced* to their current level. Prior to that, the rates were last increased sixteen years ago, in 1992. Over the last several years, operating costs have increased, some such as labor and benefits, power expenses and fuel costs have increased dramatically. This coupled with increases in regulations including the frequency and types of testing requirements on the water to maintain compliance with safe drinking water standards have created losses for OWSI for several years. Port Ludlow Associates, the parent company to OWSI, chose not to increase rates during this time, and instead to subsidize losses as a business decision.

In addition to the above stated increases in operating costs, OWSI has added over \$1.6 million in plant investment. Recent year additions include almost \$0.5 million for a new well, and \$60,000 for the water system plan update. A challenge has been filed against the Washington State Department of Health's approval of our water system plan and we anticipate legal fees for the defense could range anywhere from \$25,000 to \$75,000. This rate proposal includes a 1/6th portion of the anticipated legal fees.

Some customers have indicated a desire to establish reserves for future use. We considered this suggestion for this rate filing but did not include it in the costs of the utility due to the magnitude of the rate adjustment without it. The current rate proposal is only a portion of the total rate adjustment OWSI needs to cover all operational costs, rate of return and taxes. To accomplish all of this, OWSI would need to increase rates by 82%. To temper the amount of the adjustment, OWSI has chosen to limit the requested rate adjustment to 50% this year and phase the full cost of service in over a longer period. The issue of reserves for future use will be re-evaluated over the next few years.

THE NEW RATES:

The **proposed rate structure is somewhat different** from that currently used. The current rate structure is composed of a base rate and a consumption charge for consumption over 600 cubic feet per month (or 1,200 cubic feet per two month billing). The new rate structure does not include an allowance in the base rate, meaning that the consumption charge will be effective for all water used. The philosophy behind this change is to promote conservation through encouraging water use efficiency. The new consumption rate is comprised of two blocks. The first block is a lower rate than the second block and covers all water used from 1 to 1,000 cubic feet per month. The second block encompasses all usage over 1,000 cubic feet. For a two-month bill, the second block would begin at 2,000 cubic feet.

The first block is intended to reflect "normal" everyday summer usage by a single-family household such as showers, cooking, clothes washing, and toilets and average summer lawn irrigation. This figure, 1,000 cubic feet per month, equates to 246 gallons per day, not to be confused with a yearly average use.

The second block is intended to include water use that is considered "discretionary", or above average summer use. This might include greater than normal use for irrigation, washing cars, pressure washing and other non-domestic water uses. The rate for water in the second block is higher to encourage conservation through wise use of the resource. There will no longer be a differential between residential or commercial rates. The WUTC has long opposed a class-of-service based rate structure, therefore the proposed rate structure is based solely on meter size. We will continue to read meters and bill on a bi-monthly basis however the rates are shown converted to a monthly charge. The following table provides a comparison of the current and proposed rates for a typical residential customer:

<i>Monthly Rates</i>	<i>Present Rates</i>	<i>Proposed Rates</i>
3/4" x 5/8" meter (most customers)	\$20.50 Includes 600 cu ft	\$20.25 Zero allowance
Consumption Charge		
For all water use over 600 cu ft per month (per cubic foot)	\$0.0190	
Block 1 - First 1,000 cu ft of water per month (per cubic foot)		\$0.0251
Block 2 - All consumption above 1,000 cu ft (per cubic foot)		\$0.0365

Note: 1 cu ft = 7.48 gallons

The present and proposed rates for meter sizes are presented at the end of this letter. This proposal will not go into effect without going through the public process. The schedule for the public process is presented in the next section of this letter.

SCHEDULE OF ACTIVITIES:

In support of the public process, the following schedule has been developed to allow the maximum amount of public involvement:

February 15, 2008	File with WUTC
March 6, 2008	Informational Meeting in Port Ludlow, Bay Club 1-3 p.m.
March 13, 2008	First Open Meeting for public comment, WUTC Olympia
April 10, 2008	Second Open Meeting, WUTC Olympia
April 22, 2008	Rates Effective

There may be a second public meeting in the Port Ludlow area dependent upon public interest.

QUESTIONS AND COMMENTS: If you have questions about the proposed filing and how it will affect you, please call Olympic Water and Sewer, Inc., (360) 437-2101 or email "OWSI@portludlowassociates.com".

To comment on this filing, be added to the commission's mailing list, or ask questions about the ratemaking process, please use the contact information below. You may also comment by using the "Public Comment" feature at the commission's web site, at <http://www.utc.wa.gov>

If you are unable to attend an open meeting in person, the commission has a bridge line that enables you to participate or listen by telephone. Call 360-664-1234 for instructions the day before the open meeting.

Washington Utilities and Transportation Commission
Post Office Box 47250, Olympia, WA 98504-7250
E-mail: comments@utc.wa.gov
Telephone: 1-800-562-6150

We look forward to receiving your comments.

Sincerely,



Larry Smith
President

**Olympic Water and Sewer
Proposed Rate Design
Bill Comparison**

Bi-Monthly Consumption	Present Bill 3/4" x 5/8" Meter (monthly)	Present Bill 3/4" x 5/8" Meter (bi-monthly)	Proposed Bill 3/4" x 5/8" Meter (monthly)	Proposed Bill 3/4" x 5/8" Meter (bi-monthly)	Bi-monthly \$ Change	% Change
500	\$20.50	\$41.00	\$26.53	\$53.05	\$12.05	29.39%
1,000	\$20.50	\$41.00	\$32.80	\$65.60	\$24.60	60.00%
1,200	\$20.50	\$41.00	\$35.31	\$70.62	\$29.62	72.24%
1,500	\$23.35	\$46.70	\$39.08	\$78.15	\$31.45	67.34%
2,000	\$28.10	\$56.20	\$45.35	\$90.70	\$34.50	61.39%
2,500	\$32.85	\$65.70	\$54.48	\$103.25	\$37.55	57.15%
3,000	\$37.60	\$75.20	\$63.60	\$115.80	\$40.60	53.99%
3,500	\$42.35	\$84.70	\$72.73	\$128.35	\$43.65	51.53%
4,000	\$47.10	\$94.20	\$81.85	\$140.90	\$46.70	49.58%
4,500	\$51.85	\$103.70	\$90.98	\$159.15	\$55.45	53.47%
5,000	\$56.60	\$113.20	\$100.10	\$177.40	\$64.20	56.71%

Meter Charge \$/Month

Meter Size	Present Rate	Proposed Rate
3/4" x 5/8"	\$20.50	\$20.25
1"	34.24	33.82
1-1/2"	68.27	67.43
2"	109.27	107.93
3"	205.00	202.50

Volumetric Charge \$/CF

Consumption (per month)	Present Rate	Proposed Rate
Consumption over 600 CF	\$0.019	
First 1,000 CF		\$0.0251
Consumption over 1,000 CF		\$0.0365